

## Message Text

CONFIDENTIAL

PAGE 01 REYKJA 01565 221721Z

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ACTION EUR-12

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FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC PRIORITY 4996

C O N F I D E N T I A L REYKJAVIK 1565

FOR EUR/NE: ANNE PINKNEY

E.O. 11652: GDS

TAGS: EFIS PFOR MARR IC

SUBJECT: SIGNIFICANCE OF ICELAND-FRG FISHERIES DISPUTE

1. THE FISHERIES LIMITS DISPUTE WITH THE FEDERAL REPUBLIC OF GERMANY (FRG) HAS REPLACED DEFENSE AS THE MAJOR FOREIGN POLICY ISSUE FACING ICELAND. HOWEVER, IF HISTORY REPEATS ITSELF, THE SIDE EFFECTS OF THIS "COD WAR" COULD CONCEIVABLE BE THE SAME AS IN THE "COD WAR" WITH THE BRITISH WHEN THE ICELANDERS TRIED TO CONNECT THE FISHERIES LIMITS DISPUTE WITH THE DEFENSE ISSUE AND ICELAND'S MEMBERSHIP IN NATO. NOW, AS THEN, USG POLICY IS TO AVOID ENTANGLEMENT IN THE DISPUTE. THIS HAS, AND MAY MEAN AGAIN, HOWEVER, THAT THIS EMBASSY WILL SPEND MUCH TIME EXPLAINING TO ICELANDERS AND TO ICELANDIC POLITICIANS THE PURPOSES OF NATO, AND WHY IT IS ICELAND'S INTEREST TO KEEP THE FISHERIES ISSUE AND THE DEFENSE ISSUE APART.

2. IN THE DISPUTE WITH THE UK LAST YEAR, THE ICELANDERS ULTIMATELY TURNED THEIR WRATH ON NATO AND THE US FOR THEIR ALLEGED INACTION, ACCENTUATING THE THREAT TO THE US MILITARY PRESENCE IN ICELAND  
CONFIDENTIAL

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PAGE 02 REYKJA 01565 221721Z

ALREADY POSED BY THE LEFTIST GOVERNMENT THEN IN OFFICE. A

REPEAT OF THAT SITUATION IS NOT FORESEEN, UNLESS THE FRG SENDS ITS FRIGATES TO PROTECT ITS FISHING TRAWLERS, AS THE UK DID, BUT AN EXAMPLE OF THE ICELANDIC THINKING UNDER TODAY'S CIRCUMSTANCES, WHICH COULD HAVE ADVERSE IMPLICATIONS FOR THE US, APPEARED IN ICELAND'S LEADING NEWSPAPER (THE PRO-US, PRO-NATO, INDEPENDENCE PARTY MORGUNBLADID) NOVEMBER 20 IN AN ARTICLE BY AN INDEPENDENCE PARTY MP. THE UK AND FRG HAVE BLOCKED EEC TARIFF CONCESSIONS UNTIL SETTLEMENT OF THE FISHERIES DISPUTE, AND THE MP PROPOSED THAT ICELAND REMOVE DUTY-FREE IMPORT PRIVILEGES FOR THE KEFLAVIK BASE -- "WHICH HELPS SAFEGUARD WEST GERMANY AND THE EEC COUNTRIES" -- AND APPLY THE REVENUE TO ICELAND'S LOSSES RESULTING FROM EEC'S CONTINUED BLOCK ON IMPORT DUTIES CONCESSIONS.

3. THE FRG-ICELAND FISHERIES LIMIT DISPUTE HAS ITS IMMEDIATE ROOTS IN ICELAND'S 1971 DECISION TO EXTEND ITS FISHERIES LIMITS TO 50 MILES, WHICH TOOK EFFECT SEPTEMBER 1, 1972. SINCE THE SPRING OF 1972, ICELAND AND WEST GERMANY HAVE HELD INTERMITTENT NEGOTIATIONS ON POSSIBLE ARRANGEMENTS FOR FRG FISHING RIGHTS WITHIN 50 MILES. PENDING AN AGREEMENT, THE FRG (AS THE UK HAD DONE PREVIOUSLY) HAS PREVENTED THE IMPLEMENTATION OF A FIVE-STAGE TARIFF REDUCTION SCHEDULE GOVERNING ICELANDIC IMPORTS INTO THE EEC.

4. THE UK-ICELAND DISPUTE REVOLVED PRIMARILY AROUND WHAT AREAS WOULD BE OPEN TO THE BRITISH AND HOW LARGE A CATCH THEY WOULD BE ALLOWED. THE MAJOR OUTSTANDING ISSUE BETWEEN THE FRG AND ICELAND IS THE TYPE OF WEST GERMAN VESSELS TO BE ALLOWED WITHIN 50 MILES, ALTHOUGH THERE ARE APPARENTLY ALSO SOME GEOGRAPHIC DETAILS STILL UNRESOLVED. THE LATEST ROUND OF ICELAND-FRG TALKS WAS HELD IN BONN OCTOBER 23-24 AND PRODUCED A DRAFT AGREEMENT WHICH WOULD, AMONG OTHER THINGS, HAVE EXCLUDED COMPLETELY WEST GERMAN FACTORY TRAWLERS (AN UNCONDITIONAL GOI DEMAND), PERMITTED 17 FREEZER TRAWLERS AND 40 CONVENTIONAL VESSELS INSIDE 50 MILES AT STIPULATED TIMES OF THE YEAR, AND LIMITED SIZE OF THE FRG CATCH. THE TERMS WERE NEGOTIATED BY A TEAM OF CIVIL SERVICE EXPERTS WITH NO POLITICAL ADVISORS. THE GOI TRIED TO KEEP THE PROPOSALS SECRET WHILE THE CABINET AND PARLIAMENT CONSIDERED THEM, BUT THEY LEAKED OUT AMID RUMORS OF SERIOUS OPPOSITION WITHIN THE GOVERNING PROGRESSIVE AND INDEPENDENCE PARTIES. WHEN THE GOVERNMENT FINALLY RELEASED THE DRAFT, THE RUMORS PROVED ACCURATE, AS A HOST OF PROGRESSIVE PARTY MP'S DENOUNCED TERMS CHIEFLY BECAUSE

CONFIDENTIAL

PAGE 03 REYKJA 01565 221721Z

THEY ALLOWED EVEN A LIMITED NUMBER OF FREEZER TRAWLERS. THIS PROVISION, THE CRITICS CLAIMED, NOT ONLY WOULD PUT ICELANDIC FISHERMEN AT A DISADVANTAGE, BUT WAS A MAJOR CONCESSION IN PRINCIPLE WHICH WOULD PROVE TO BE A DANGEROUS PRECEDENT IN ANY NEGOTIATIONS WITH OTHER GOVERNMENTS. OTHER OPPONENTS CHARGED THAT THERE WAS LITTLE TO DISTINGUISH THE FRG'S FREEZER TRAWLERS FROM ITS FACTORY SHIPS. THE MINISTER OF FISHERIES PUBLICLY ANNOUNCED THAT HE COULD NOT ACCEPT THE TEXT AS IT STOOD BECAUSE OF SOME

OF THE GEOGRAPHIC AREAS THAT WOULD BE OPEN TO THE FRG. ON NOVEMBER 14, THE GOI DECLARED OFFICIALLY THAT IT COULD NOT ACCEPT THE DRAFT AGREED TO IN BONN, WHILE AT THE SAME TIME HOLDING OUT THE HOPE OF STILL REACHING AN EVENTUAL SETTLEMENT.

5. THE MAIN MOTIVATION OF ICELAND TO SEEK AN AGREEMENT IS ITS DESIRE TO SECURE THE IMPORT ADVANTAGES WHICH THE FRG IS NOW WITHHOLDING. WHILE THIS IS NOT NOW A MATTER OF MAJOR SIGNIFICANCE TO THE NATIONAL ECONOMY, IT DOES HAVE AN IMPACT ON SOME PARTS OF THE COUNTRY AND WOULD ASSUME GREATER SIGNIFICANCE IF ICELAND HAD TO SEEK EXPANDED EUROPEAN MARKETS. ADDITIONALLY, ICELAND WOULD LIKE TO GAIN WHAT COULD BE CONSTRUED AS IMPLICIT ACQUIESCENCE IN ITS CONTROVERSIAL 50-MILE EXPANSION WHICH, IN TURN, COULD HELP SMOOTH THE WAY FOR ITS PLANNED ESTABLISHMENT OF A 200-MILE ZONE NEXT YEAR.

6. THE DISPUTE HAS NOT, THUS FAR, BEEN MARKED BY THE KIND OF CLASHES THAT ESCALATED INTO LAST YEAR'S SERIOUS CONFRONTATION WITH THE BRITISH, BUT ICELANDERS TAKE EXTREMELY SERIOUSLY ANY MATTER RELATED TO THEIR VITAL FISHERIES RESOURCES, AND THEY ARE LIKEWISE ACUTELY SENSITIVE TO ANY HINT OF INTIMIDATION WHETHER FROM BRITISH GUNBOATS OR -- AS SOME NOW CHARACTERIZE IT -- WEST GERMAN ECONOMIC PRESSURE.

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